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March 1, 2001

Hand Delivery

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: EX PARTE -- CC Docket No. 01-9: Application of Verizon Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide InterLATA Services in Massachusetts

Dear Ms. Salas:

On February 28, 2001, Donna Sorgi, Michael Pelcovits, Rob Lopardo and Richard Metzger on behalf of WorldCom, Inc. met with Dorothy Attwood, Glenn Reynolds, Jack Zinman, Jane Jackson and Rich Lerner of the Common Carrier Bureau to discuss Verizon's refiled section 271 application to provide long distance service in Massachusetts, with specific discussion of the importance of cost-based UNEs in Massachusetts, the status of the UNE cost case in New York, and the acceptable range of TELRIC rates for switching, as set forth in WorldCom's written comments. In addition, copies of the attached documents were provided at the meeting.

In accordance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, an original and one copy of this Notice are being filed with your office. In addition, a copy of this Notice and attachments is being transmitted by fax to Ann Berkowitz at Verizon as requested in the Commission's Public Notice.

Sincerely.

Keith L. Seat

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List ABCDE

Attachments

cc (w/o att.): Dorothy Attwood, Glenn Reynolds, Jack Zinman, Jane Jackson, Rich Lerner

cc (w/att.): Susan Pie, Josh Walls, Cathy Carpino, Ann Berkowitz (by fax)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on September 16, 1998

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
John B. Daly
Thomas J. Dunleavy
James D. Bennett

CASE 95-C-0657 - Joint Complaint of AT&T Communications of New York, Inc., MCI Telecommunications Corporation, WorldCom, Inc. d/b/a LDDS WorldCom and the Empire Association of Long Distance Telephone Companies, Inc. Against New York Telephone Company Concerning Wholesale Provisioning of Local Exchange Service by New York Telephone Company and Sections of New York Telephone's Tariff No. 900.

CASE 94-C-0095 - Proceeding on Motion of the Commission to Examine Issues Related to the Continuing Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market.

CASE 91-C-1174 - Proceeding on Motion of the Commission Regarding Comparably Efficient Interconnection Arrangements for Residential and Business Links.

CASE 98-C-1357 - Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements, Filed in Cases 95-C-0657 and 94-C-0095.

ORDER DENYING MOTION TO REOPEN PHASE 1
AND INSTITUTING NEW PROCEEDING

(Issued and Effective September 30, 1998)

earlier. But, it continues, even if contractual discount levels were pertinent to the Phase 1 decision, the "growth" discount, rather than the "new switch" discount, would be the one to be looked to in a forward-looking analysis, inasmuch as new switch purchases are relatively rare in a mature network such as New York Telephone's, except in the context of the nearly-completed analog-to-digital replacement program. It presents a proprietary analysis said to show that the vendor discounts implicit in the Phase 1 decision are, in fact, greater than currently available levels for growth purchases and only slightly less than currently available new switch discounts.

Finally, New York Telephone denies that the discounts potentially negotiable by the post-merger Bell Atlantic provide any basis for reopening Phase 1. It contends it already has negotiated new agreements reflecting the merger, none of which affect the points described above, and that, in any event, the productivity adjustments included in the analysis used in the Phase 1 Opinion take account of decreases in the negotiated prices of switches over time.

DISCUSSION AND CONCLUSION

New York Telephone correctly argues that selective updates should be avoided, for they can produce unfairly skewed results. But the motion here, at least on its face, requests not a selective update to capture new cost trends as much as the correction of an asserted material error said to have been caused by a flaw in the record for which New York Telephone was responsible. Closer examination therefore is needed to determine how to properly characterize the situation.

To begin, New York Telephone suggests that the Phase 3 testimony really sheds no new light on the discount situation, inasmuch as the record, through the testimony of MCI witness Mercer and otherwise, recognized that the proper distinction was between new (including replacement) and growth switches rather than between replacement switches and others. But that argument is unpersuasive. New York Telephone may now belittle, as

"inadvertent misstatement," its own assertion that the higher discounts were uniquely associated with the analog-to-digital replacements (a claim implying, at least, that other new switch purchases would be discounted at some lower rate); but the statements were unequivocal and were made not only in discovery response and brief but also on cross examination.[1] (Indeed, New York Telephone's witness added that he "would certainly change [the] numbers" in his switching cost study if it turned out, contrary to his then-existing belief, that the deep discounts would continue to be available on a going forward basis.) We took that claim seriously--we had no reason not to--and referred to it in the Phase 1 Opinion. Accordingly, the newly available information changes the state of the record with regard to vendor discounts. New York Telephone suggests the new information bears only on the vendor discounts contemplated in its SCIS study and therefore does not affect our analysis, which declined to rely on the SCIS study. But, as noted earlier, our analysis also made judgments that relied on assumptions regarding the level of vendor discounts, and the newly available information, as explained, might have had a bearing on those judgments.

New York Telephone suggests as well that the new information lacks significance because relatively few new switches are purchased for a mature system like its own and the discount that should be contemplated in a forward-looking analysis of such a system is the lower one associated with growth purchases. That argument, however, requires factual support and cannot be assumed to be true in evaluating the motion to reopen. More conceptually, it forgets that a Total Element Long-Run Incremental Cost (TELRIC) analysis of the sort used in these proceedings contemplates the construction of a new system. Even if there were a factual basis to New York Telephone's argument, it might be inapposite to a TELRIC analysis.

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[1] We have no information suggesting that New York Telephone's errors were deliberate. But careless errors of this sort in a party's presentation are nonetheless distressing and disruptive of the process.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements	**Case 98-C-1357**

INITIAL POST-HEARING BRIEF OF VERIZON NEW YORK INC.

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February 16, 2001

investment, and the estimation of common overhead costs through the use of factors applied to direct expenses rather than to investments. These refinements, and numerous others like them, should be welcomed by the Commission, not rejected on the grounds of novelty or merely because they — unsurprisingly — support prices that differ from those currently in effect.

To recognize the value of these refinements is not to suggest that the current rates reflect "miscalculations" or errors. It should be remembered that the Phase 1 studies were prepared in a very short period of time and were filed less than two months after the FCC's TELRIC regulations were issued; at a time, moreover, when UNEs were a very new product line with which most CLECs and incumbent LECs had had little experience. It is not surprising that over three years of regulatory evolution, additional data, and thoughtful consideration of alternative approaches since that time would lead to the development of improved cost estimation approaches.[83]

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[83] AT&T also argues that if current UNE prices were too low, we would expect to observe (a) poor financial performance on Verizon's part, (b) reduced network investment, and (c) "entry into local telephone markets almost exclusively through the purchase of UNEs"; none of which, purportedly, has actually occurred. (Tr. 1392-97.) AT&T's contentions are meritless.

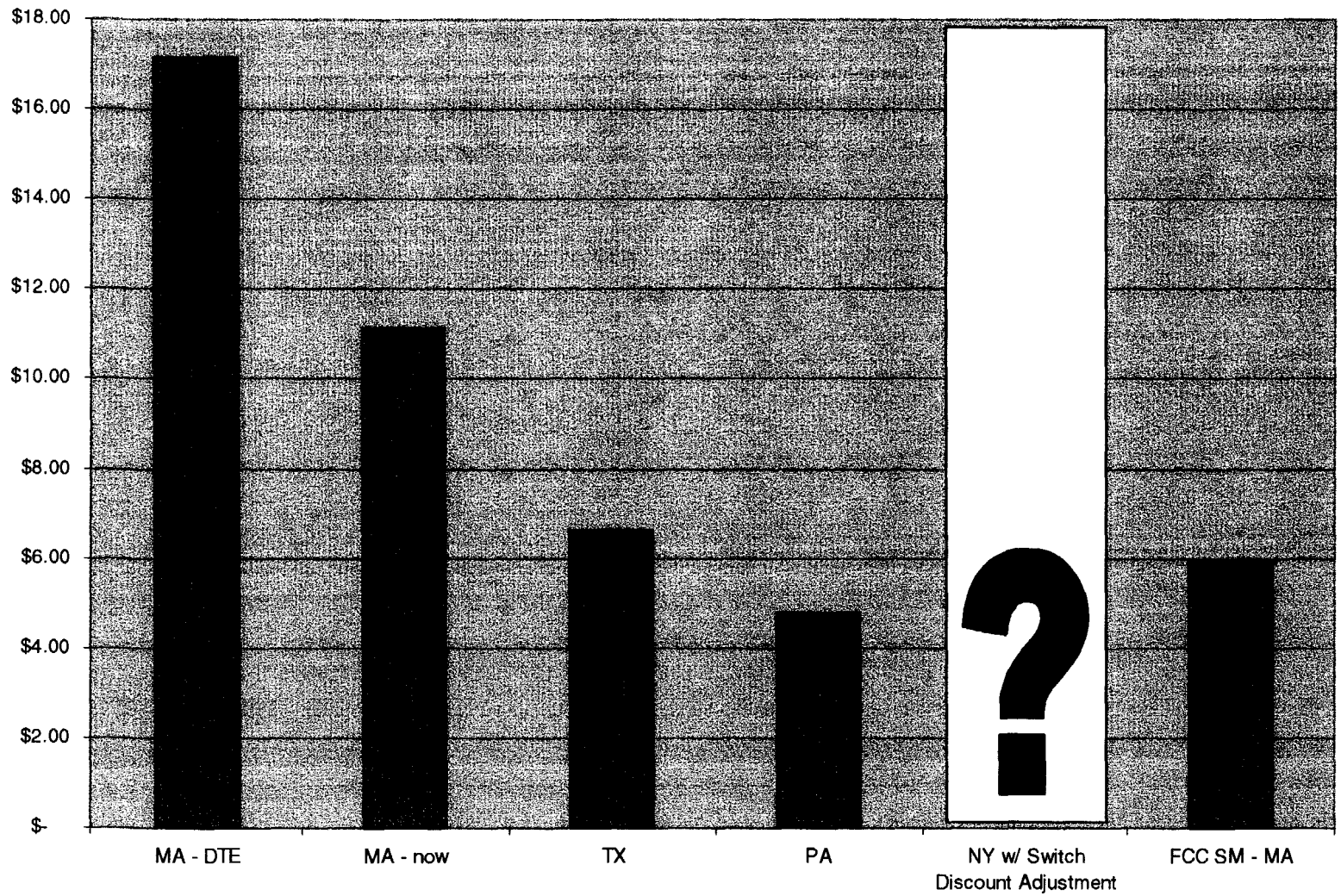
Verizon's overall returns reflect costs, revenues, and investments from a wide variety of sources, and by themselves cannot say anything meaningful about the level of UNE rates. Moreover, Verizon's financial performance, as measured by the more relevant (to this proceeding) test of interstate regulated returns, *has* been poor, as is demonstrated by its recent filings under its Performance Regulation Plan. Verizon's regulated rate of return for Plan Year 5, for example, was 4.2%, and its return on equity was 0.6%.

Verizon's network growth reflects total, not just wholesale investments; as even AT&T appears to recognize, in an environment of strong retail competition, Verizon has an incentive to invest in network improvements regardless of the profitability of the wholesale market. Finally, recent data show a rapid growth in demand for UNE loops and UNE Platforms. (Tr. 3301-02; *see also* Ex. 332, Part AG-2.) Indeed, if anything, the strong and growing demand for UNEs suggest the need for pricing initiatives that will stimulate competitive investment in *new* network facilities, and decrease CLECs' reliance on Verizon's network.

APPENDIX A
UNE Costing and Pricing DPL Issues Award Table

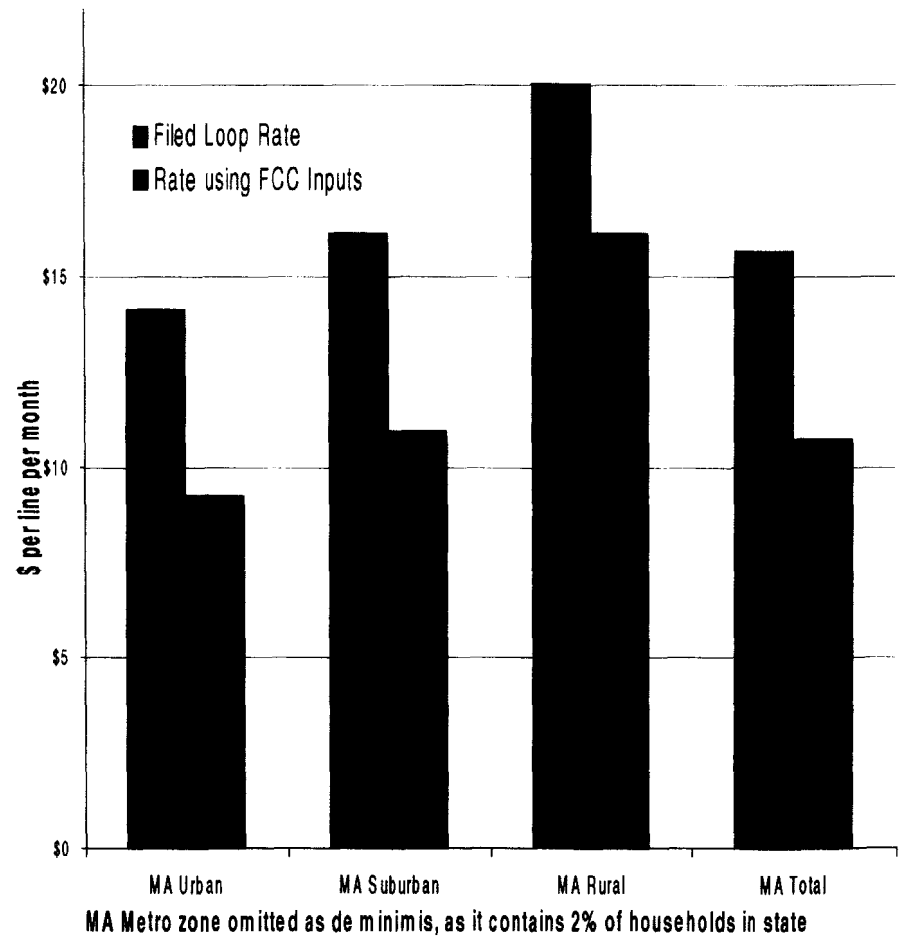
Issue #	General Issue	Decision	Comments
1	Should the switch discount be based upon the replacement cost of the switch?	Yes	
2	5E SCIS/MO Discount	68%	On material, install, and engineering
3	DMS100 SCIS/MO Discount	72%	On material, install, and engineering
4	DMS10 SCIS/MO Discount	64%	On material, install, and engineering
5	5E SCIS/IN Discount	68%	On material, install, and engineering
6	DMS100 SCIS/IN Discount	72%	On material, install, and engineering
7	DMS10 SCIS/IN Discount	64%	On material, install, and engineering
8	5E SCIS/MO "Other Inv." to exclude from Getting Started Investment	$93,287 per host $53,364 per remote	
9	DMS 100 SCIS/MO "Other Inv." to exclude from Getting Started Investment	$134,569 per host $22,650 per remote	
10	DMS10 SCIS/MO "Other Inv." to exclude from Getting Started Investment	$34,840 per host (no DMS10 remote)	
11	AXE SCIS/MO "Other Inv." to exclude from Getting Started Investment	$27,108 per host $5,255 per remote	
12	5E SCIS/MO SM Processor HDBH Percent Utilization	90%	
13	SCIS/MO Digital Trunks	6:1 for urban 12:1 for rural Total trunks in studies = 451,174 resulting in 8.021 overall trunk to line ratio.	
14	SCIS/MO analog trunks	N/A	N/A - Parties reached agreement on this issue that 0 analog trunks would be assumed.
15	ORM vs. ORM and RSM remote types 5E SCIS/MO Type of Remote	Compared 1 office using ORM & RSM remote types.	Both ORM and RSM should be used.
16	5E SCIS/MO SM Memory Adjustment	0	
17	SCIS/MO Default "U" Inputs	"U" inputs or "Unknown" inputs is an option which is intended by Bellcore to be used only when actual data is unavailable.	

MA Switching Rates Exceed TELRIC



Loop Rate Is About $5/Month Too High

- Verizon's loop cost study (adopted by MA DTE) made numerous errors in:
  - Utilization Factors
  - Pole Inputs
  - Cost of NIDs
  - Cost of Cable
  - Cost of Capital
- Using inputs from FCC's Synthesis Model reduces loop rate to $10.71 instead of Verizon's $15.66



MA Metro zone omitted as de minimis, as it contains 2% of households in state